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STAFF MEMORANDUM NO. 78-63 (Internal ONE Working Paper --
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SUBJECT: Erhard and West German Policy

SUMMARY

Erhard in his early months in office will be under conflicting pressures, on one side to continue unchanged the policies of Adenauer, and on the other to exert independent leadership and take new initiatives in the foreign policy field. On the issues of reunification and West German relations with the Soviet Bloc, Erhard has privately proposed that the West, and particularly West Germany, offer the Soviets large-scale trade and credits, in return for Moscow's agreement to a series of actions leading to German reunification. (He wants this to be a first priority subject for discussion when he visits the President in late November.) However unlikely it may appear that the USSR would accept such a scheme, its formal proposal by Erhard could have a disruptive effect within NATO and might confront the US with the dilemma of either appearing to accept the implications of the idea or of pouring cold water on Erhard's first initiative. Aside from this attempt at a new initiative, Erhard's administration appears for the moment to be closely in tune with general US policies on NATO and the MLF, and may even prove more ready than Adenauer to accept changes in the disposition and number of US troops in Germany.

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The new Chancellor has been cautious and non-committal in his recent utterances concerning French-German relations, but he has had long-standing and quite basic differences with de Gaulle (and in some cases Adenauer as well) on the Common Market, the role of Britain in Europe, and the proper policy for the EEC in next year's Kennedy Round of tariff-cutting negotiations. On all these subjects, Erhard's present views are generally favorable to US positions, although they have not always been so. On the critical problem of agriculture in the EEC, Erhard is saddled with existing German policies which seriously endanger both the prospects for the Kennedy Round and the future of the EEC itself. Despite the fact that a sizable portion of the CDU/CSU electorate is comprised of German farmers, we believe that Erhard's political position is strong enough for him to make concessions to the rest of the Common Market and the US on the key issue of the EEC grain support price level. We are uncertain that he will be a sufficiently forceful leader to do so, however, since he must override a very vocal farm opposition within his party.

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I. ERHARD AND THE PROBLEM OF LEADERSHIP

1. West German Chancellor Erhard's actions in the coming months are likely to be influenced by two sometimes conflicting considerations. He desires on the one hand to convince his fellow Germans that he is faithfully and successfully maintaining the basic policies which brought the Federal Republic to its present strong position in the Western Alliance. He wants at the same time, however, to show that he is an effective leader and policy-maker in his own right, and thus to emerge from under the long shadow cast by his predecessor.

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2. In the domestic field, where Erhard won his reputation as the architect of Germany's economic miracle, both these aims can be advanced at the same time without difficulty, and changes from the proven policies of the past are not likely. In foreign affairs, by contrast, Erhard will be pulled in two directions. On the one hand he will have to be careful lest he expose himself to the criticism of men like Brentano, Strauss, and Adenauer himself -- all of whom are all too ready to castigate any departure from established policy -- and hence lose the confidence of his parliamentary supporters. For this, among other reasons, we expect a strong note of caution in the introduction of any Erhardian initiatives and a considerably higher degree of dependence on key subordinates (notably Foreign Minister Schroeder and Defense Minister von Hassel) than was the practice under Adenauer.

3. On the other hand, Erhard has given evidence of a keen personal interest in making a name for himself as a statesman and thus giving the lie to the aspersions on his political judgment and leadership which he has had to suffer from Adenauer over the years. And though it is still far from certain to what extent Schroeder can in fact speak for Erhard (and vice versa) on foreign

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affairs, it is apparent that the Foreign Secretary, with his willingness to risk the old Chancellor's censure on the test ban issue and his apparent interest in achieving greater diplomatic flexibility for Germany up and down the line, represents an important additional force for innovation in foreign policy.

4. The major foreign policy subjects with which Erhard may be dealing in the near future are reunification and West Germany's relations with the Soviet Bloc, NATO and the MLF, German relations with France, and the related problem of European integration. Subject to the uncertainties and conflicting pressures noted above, following is a brief run-down of Erhard's views on these subjects.

II. REUNIFICATION AND RELATIONS WITH SOVIET BLOC

5. In his speeches since becoming Chancellor, Erhard has consistently supported present US policy toward the Soviet Union and on Berlin and the German problem. He has just as consistently emphasized that the Federal Republic will never accept recognition or an "international upgrading" of the East German regime. Noting that others have called upon the Germans to accept partition of

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their nation as a reality, Erhard has said that the will of the German people to achieve reunification is a "far more potent reality." At the same time, he has pledged West Germany to continue improving its relations with the East European countries, and is prepared to expand trade with the Bloc.

6. Privately, Erhard and his spokesmen have also been advancing to US officials a proposal whereby the West, and particularly West Germany, would offer to provide the Soviets large-scale trade and credits to help the USSR's lagging economy, if the USSR would agree to a series of measures (unspecified at present) leading to German reunification.* This scheme is apparently designed to put Erhard's own stamp on the

* Although Erhard himself has mentioned no specific figures, his close personal adviser, State Secretary Westrick, has talked in terms of \$2.5 billion a year for 10 years, noting that such a level of aid would be additionally attractive to the USSR in that it would require a levelling off if not an actual reduction in German military expenditures. Another indication of growing official interest in devising some new approach to the reunification problem is provided by the head of the West German Foreign Office, Dr. Muller-Roschach, who in a recent conversation with a US official indirectly implied that demuclearization of West Germany -- as well as massive aid to Eastern Europe -- might not be too high a price to pay.

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new administration's policy toward reunification and the USSR. A Bonn spokesman has labelled this as the subject Erhard most wants to talk about when he visits President Kennedy in late November. It might be noted that Erhard's concept is paralleled to a remarkable degree by Adenauer's insistence that the USSR is now badly in need of Western trade and aid and should be made to pay the full political price for any help provided.

7. It may be that such an arrangement could never be negotiated with the USSR, but the raising of the issue by the Germans would itself pose problems for the US. If the US appeared to accept it, a host of difficulties would immediately arise within NATO. Pressures would presumably rise in other Western countries to get a fair share of any new business with the USSR. Questions might be raised (by the British, for example) as to why the Germans should get special access to the Soviet market and at the same time reap the political benefits of possible moves toward reunification. In addition, a massive increase of German trade with the USSR would cause difficulties within the Common Market, upsetting efforts which have been under way for some time among the EEC countries to work out common

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commercial and credit policies toward the Bloc. The upshot might be a precipitate breakdown of the remaining Western controls on trade and credit to the Soviet Bloc -- with no political benefits gained in return.

8. If, on the other hand, the US were to throw cold water on Erhard's proposal, he might be discouraged from pursuing his apparent present desire to work closely and frankly with the US. From the German viewpoint, any out-of-hand US rejection of Erhard's idea might be particularly hard to take in view of repeated US criticism of the Germans as being too inflexible and unwilling to consider new ideas. Finally, at least some increase in Western trade with the Soviet Union may result in any event from the present East-West detente. If the West makes no effort to extract political concessions on the German problem in return, Erhard himself, may suffer disenchantment, or incur blame from the CDU/CSU for not pressing the German case more vigorously.

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III. NATO, THE MLF, AND US FORCES IN GERMANY

9. Erhard has consistently expressed support for NATO and US policies toward NATO. In his policy declaration before the Bundestag after becoming Chancellor, he also gave strong backing to the proposed NATO MLF, saying that such a fully integrated nuclear striking force, "over which no single nation has an autonomous right of control, would point up new ways of political and military cooperation within NATO". Erhard's wording implies the belief that no one nation, including the United States, should have a veto over the use of the MLF, and other German spokesmen have also recently expressed the view that the MLF should ultimately be free of a US veto. They -- and some Italian officials as well -- have urged that the US promote movement toward the political integration of Western Europe by promising to relinquish its role in an MLF when a European political entity is formed to take it over.

10. The almost pathological German opposition to the withdrawal of any NATO-assigned US combat troops from West Germany will probably continue, but may be somewhat milder under Erhard than it was under Adenauer. Erhard, Schroeder, and

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von Hassel personally seem more willing than Adenauer has been on similar occasions to accept US assurances that there will be no reduction of combat troops in Germany at present. We believe that the new German leaders are also likely in the future to be more willing than Adenauer to accept changes in the disposition and number of US troops, if they are given US assurances that the relative combat effectiveness of these troops will remain unchanged. The chances are good in other words, that the new West German administration will, given time, approach this problem more rationally than the former regime. The new leadership will remain very suspicious, however, that balance of payments considerations may color the military judgments of US officials, and will undoubtedly require much convincing that the military evaluations which form the basis for any changes in troop dispositions are sound.

IV. RELATIONS WITH FRANCE

11. Erhard has so far been cautious and non-committal in his utterances concerning French-German relations. He has said that the French-German pact of January 1963 "manifests the reconciliation of the two nations," and that he intends to improve

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Franco-German cooperation. The only specific avenue of cooperation Erhard mentioned in his inaugural policy declaration, however, was a joint youth exchange project.

V. EUROPEAN INTEGRATION, AGRICULTURE, AND THE KENNEDY ROUND

12. Part and parcel of German relations with France henceforth will be Erhard's views on the Common Market and European integration. Erhard's attitude toward the EEC has for some years been one of his principal areas of difference with both Adenauer and de Gaulle. Adenauer always supported a relatively tight grouping of the six EEC countries and opposed any weakening of intra-EEC links in order to merge the Common Market into a broader, European-wide Free Trade Area or to ease the entry of other nations into the Common Market. De Gaulle, for reasons of his own, has adopted a very similar attitude toward the EEC since his return to power in 1958.

13. Erhard, in contrast, has always fought against any measures tending to accelerate the strengthening of trade ties within the EEC at the expense of trading links between individual

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EEC members (e.g., Germany) and outside third countries (e.g., Great Britain). Erhard in the late 1950's consistently supported formation of an all-European Free Trade Area to include Britain and other states as well as the EEC. He also favored a reconciliation between the EEC and the EFTA, after the latter organization was formed by the British as a counterweight to the EEC. Still later, he strongly supported Britain's application for admission to the EEC. On several occasions he made remarks on these subjects at EEC meetings which were so unfavorable to Adenauer that the Bonn government issued statements disavowing the views of its Economics Minister. It should be noted in this connection that the US, because of its belief that the EEC offered the best means of bringing about the political integration of Europe, supported Adenauer (as well as de Gaulle and the EEC Commission) against Erhard on these issues up to the time that Great Britain applied for full membership in the EEC.

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14. Erhard's present differences with de Gaulle on the organization of Europe are thus based on developments of long standing, and cannot easily be bridged. In recent addresses, Erhard has said that the EEC must not degenerate into a self-sufficient market, that the integration of only six European countries cannot be considered "the ultimate goal," and that efforts to intensify "internal European ties with Great Britain" must be an essential part of Germany's policy.

15. Because he opposes a little Europe of the Six, and also because as a liberal economist he opposes the type of central economic planning (dirigisme) favored by the French and the EEC Commission, Erhard has never been enthusiastic about giving up national powers to supranational institutions such as the EEC Commission. Here his views tend to jibe with those of de Gaulle, though for completely different reasons. As de Gaulle has done on other occasions, Erhard in his recent speech to the Bundestag indicated opposition to further economic integration, with the concomitant further transfer of national sovereign rights to European organs, until progress is also made toward the political association of Europe. With this common ground, the possibility cannot be excluded that, despite their other differences, Erhard and de Gaulle might be able to reach agreement on specific proposals for the political association of the Six. Erhard could presumably

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agree with de Gaulle's insistence on a loose, confederal approach, but the German Chancellor would probably be adamant that any agreement must leave open a fairly immediate possibility of Britain's adherence. If no movement in the political field is possible, Erhard's recent statements would appear to mean that he will drag his heels on the further economic development of the Common Market.

16. The area where he can best perform a heel-dragging act is the difficult problem of agriculture in the EEC, on which in turn depend the prospects for significant reductions in trade and tariff barriers in next year's GATT negotiations. On the crucial issue of the level of grain support prices which are to be established within the EEC, Erhard's position seems to have hardened in recent weeks in favor of the present high German price level. The French are insisting on their own, lower price levels, at which they, but not the less efficient German farmers, can profitably produce grains, thus giving the French an expanded grain market within the EEC. (The US, which produces grains more efficiently and less expensively than either the French or Germans, favors the French position in this dispute, since EEC-wide grain prices at the present German level would not only allow continued German output, but would also so encourage total production in the EEC area that US grain sales to the Common Market would probably be squeezed out.)

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17. Prior to becoming Chancellor, Erhard had on several occasions admitted that high German grain prices led to clearly inefficient production, and implied that he, as an economist, could be more reasonable on this issue than Adenauer. Farmers, however, account for a substantial segment of the CDU/CSU voters in the country, and Erhard's recent statements suggest he is increasingly coming to feel that he cannot, as a politician, be too objective about grain prices. He has, on the other hand, carefully refrained from committing himself firmly to the present German grain price level and has not yet closed the door to negotiations on the subject.

18. The French, who feel that in the industrial sector efficient German producers are gaining more than they are from the EEC, have been unyielding on the point that the Common Market's agricultural policy must develop in a way generally satisfactory to Paris. In addition to believing that inefficient German grain production should be cut back to provide a market for French surpluses, the French do not want high grain prices because they are trying to encourage a population flow from agriculture to industry, and wish to make farming more efficient rather than induce increases of marginal output. High grain prices would also cut across the government's efforts to hold down consumer prices and control inflation. Well aware of a unity of interest with the US on EEC grain prices, the French have recently suggested to US officials a coordinated effort to influence the Erhard government on this subject.

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19. The French have insisted that the EEC's Common Agricultural Policy, including the grain price level, be settled before the Kennedy Round of trade and tariff negotiations begins next year. The maneuvering between the Germans and the French on this has been quite intense for the past six months, since the French in general are not enthusiastic about a substantial reduction of industrial trade barriers by the EEC, while most German industries support the forthcoming trade talks wholeheartedly. Erhard himself has said, "The Kennedy Round is becoming the touchstone of the principles of the Free World." As a tactical move, the Germans, and Erhard personally, have turned the French position on agriculture around, and have indicated that they are in no hurry to settle the grain price issue, so long as the French are unwilling to promise a liberal attitude toward industrial trade barriers in the Kennedy Round.

20. German rather than French policy in coming months, particularly on the grain price level, is likely to be a crucial factor in determining whether the Common Market atrophies or continues to make progress toward economic integration, and whether or not the Kennedy Round results in a substantial reduction of trade barriers. If Erhard feels his political position is secure enough to bargain away some of his farmers' present high grain price supports, and is willing to work with France and the US toward some sort of

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international grain production and distribution agreement, we believe de Gaulle will, after hard bargaining, agree to fairly sizable industrial tariff cuts in next year's GATT talks. All things considered, we believe that Erhard's political position is and will remain strong enough for him to make concessions on the grain price level. We are uncertain, however, that he has the will, and is capable of sufficiently forceful leadership, to override the very vocal farm opposition within his party.

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